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C O N F I D E N T I A L SECTION 01 OF 04 TOKYO 002819

SIPDIS

STATE FOR EEB AND EAP/J  
NSC FOR DANNY RUSSELL AND JIM LOI  
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TREASURY FOR WINSHIP AND FOSTER

E.O. 12958: DECL: 12/09/2019  
TAGS: [ECON](#) [EFIN](#) [JA](#)  
SUBJECT: HATOYAMA CABINET ANNOUNCES JPY24.4 TRILLION  
ECONOMIC POLICY PACKAGE

REF: TOKYO 2464

Classified By: Financial Attache Robert Kaproth, Reasons 1.4 (b) and (d)  
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SUMMARY

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¶1. (SBU) On December 8, the Hatoyama Cabinet finalized a new economic policy package, entitled "Emergency Economic Measures for Reassurance and Economic Growth Tomorrow". This is the first economic policy package under the Hatoyama administration, but is the fifth of its kind since the onset of the global financial crisis. The headline figure of JPY24.4 trillion (USD271 billion, or 4.9 percent of GDP) includes JPY10.4 trillion (USD116 billion) in financial measures, and a combined JPY14 trillion (USD156 billion) in fiscal spending and demand created through environmental incentive programs. The economic package does NOT contain major tax cuts or large-scale investment spending. Rather, it mainly focuses on expanding existing government programs to help the financing of small businesses, provide employment assistance, and encourage the purchase of environmentally friendly goods and energy-efficient homes. (Note: The package was delayed by four days because the People's New Party, a junior coalition party headed by Financial Services Minister Kamei, demanded higher fiscal spending. Kamei ultimately won an increase in the headline figure of JPY0.1 trillion (USD1.1 billion) from the initially envisaged JPY24.3 trillion (USD270 billion). End Note.) End Summary.

REAL IMPACT

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¶2. (C) The FINATT estimate of the package's "real water"--the additional final demand created by the package--is JPY1.8 trillion (USD20 billion, or 0.4 percent of GDP). However, much of this so-called "real water" is actually generated by redirecting government spending, with new spending measures financed by cuts in expenditures already authorized in the FY09 regular and first supplemental budgets. The Cabinet Office estimates that proposed reductions in the first supplemental budget for FY09 would reduce GDP growth by about 0.2 percentage points. Thus, "real water" on a net basis is at most 0.2 percent of GDP. (Note: This means that the DPJ has essentially maintained the same overall level of fiscal support as the LDP in FY09, though the composition of spending has shifted somewhat from the "wasteful" items cut from the first FY09 supplemental budget to the measures

included in this package. End Note.)

PACKAGE - KEY FIGURES (JPY TRILLIONS)

	Scale of Projects (Headline Figures)	GOJ Fiscal Spending	FINATT Estimate of "Real Water"
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FISCAL SPENDING			
MEASURES	14.0	6.0	1.8
Employment Support	0.6	0.6	0.3
Environmental Support	4.1	0.8	0.4
Business Support	8.2	0.5	0.3
Public Health Support	1.0	0.8	0.4
Local Government Public Works Grants	0.5	0.5	0.4
Revenue Sharing with Local Governments	3.0	3.0	0.0
FINANCIAL MEASURES	10.4	1.2	0.0
Government Backed Loans and Guarantees	10.4	1.2	0.0
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TOTAL	24.4	7.2	1.8
Percent of GDP	4.9	1.5	0.4

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PACKAGE - FUNDING

¶3. (U) The Hatoyama Cabinet will formulate a second FY09 supplemental budget in late December, and submit it to the regular Diet session in January, in order to finance the package.

¶4. (SBU) New expenditures will be funded mostly by cuts in previously authorized expenditures. The first FY09 supplemental budget, compiled by the Aso Cabinet and approved by the Diet in late May, contained JPY14.7 trillion in new spending. In mid-October, the Hatoyama Cabinet decided to suspend JPY2.9 trillion of spending from the first supplemental, JPY2.7 trillion of which will be used for the new package. (The remaining JPY0.2 trillion is not usable during FY09 due to accounting issues.) The Hatoyama Cabinet also plans to use more than JPY1 trillion from the FY09 regular budget, including debt cost saving and using various rainy-day reserve funds.

¶5. (SBU) However, additional JGB issuance is inevitable given a tax revenue shortfall of roughly JPY9 trillion (USD100 billion) from the initially projected JPY46.1 trillion (USD512 billion) in the FY09 regular budget.

PACKAGE - OUTLINE

¶6. (U) The headline figure of JPY24.4 trillion (USD271 billion) includes JPY10.4 trillion (USD116 billion) in financial measures, and roughly JPY14 trillion (USD156 billion) in fiscal spending measures and demand created through environmental purchase incentive programs.

¶7. (SBU) Financial measures center on strengthening support for corporate financing by expanding government loan-guarantee programs by JPY6 trillion (USD67 billion), and lending by government-affiliated financial institutions by JPY4 trillion (USD44 billion).

¶8. (SBU) The fiscal spending initiatives include JPY0.6 trillion (USD6.7 billion) in employment measures, and JPY0.5

trillion (USD5.6 billion) in grants to local governments for public investment.

¶9. (C) The headline figure also includes (and is inflated by) roughly JPY12 trillion (USD133 billion) in projected consumer sales generated by the environmental purchase incentive programs.

¶10. (U) The package contains about JPY3 trillion (USD33 billion) in tax revenue sharing with local governments. With smaller than projected tax revenues, revenue sharing with local governments would normally fall by JPY3 trillion. However, the Hatoyama Cabinet decided that the central government would cover in full the reduction in revenue sharing. (Note: Under the revenue sharing program, fixed proportions of revenues from the five taxes--personal income, corporate, liquor, tobacco, and consumption taxes--are allocated to local governments. End Note.)

#### INDIVIDUAL POLICY MEASURES

##### Employment

¶11. (U) The eligibility conditions for the government employment adjustment subsidy program will be eased from December 2009. For example, money-losing companies whose production volumes fall by more than 10 percent from levels of two years before will be eligible for the program. This program is designed to help firms retain employees, by providing subsidies to employers who adopt measures such as temporary paid leave or in-house job training.

¶12. (U) Public employment placement offices, called "Hello Work", will provide "one-stop service" to poor people seeking both employment and housing.

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¶13. (U) To help new graduates seeking work, the number of counseling staff at colleges and universities will be increased.

##### Environment

¶14. (U) The current incentive program designed to encourage consumers to purchase energy-efficient electric home appliances will be extended by nine months until end-December 2010. Under this program, consumers earn so-called "eco-points" when they purchase energy-efficient refrigerators, air conditioners, and televisions. These points, equivalent to 5 percent of the sales price, can be exchanged for shopping coupons and other products.

¶15. (U) The current subsidy program to encourage the purchase of environmentally friendly cars, such as hybrid and electric cars, will be extended by six months until end-September 2010. Under this program, buyers can receive JPY100,000 (USD1,136) in subsidies for qualifying standard-sized cars, and JPY50,000 (USD568) in subsidies for mini-vehicles with an engine size of less than 660cc. Furthermore, those who buy new qualifying vehicles after discarding cars that are at least 13 years old will receive additional subsidies of JPY150,000 (USD1,700) for standard sized cars and JPY75,000 (USD850) for mini cars.

¶16. (U) The government will create a new incentive program to encourage the construction and renovation of homes to save energy. Homeowners will earn "eco points" (shopping points) when they improve energy efficiency with renovations such as installing double windows and heat insulating walls.

¶17. (U) The government-backed Japan Oil, Gas and Metals National Corporation will be allowed to provide capital to

private companies to procure rare metals. The government will also provide guarantees for loans to develop and produce rare metals.

¶18. (U) "Green commuting days" will be created to lower carbon dioxide emissions.

#### Supporting Businesses (Financial Measures)

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¶19. (U) To facilitate financing for small and medium-sized enterprises (SMEs), the government will: (a) raise the ceiling on the government-affiliated credit guarantee associations' loan guarantee program by JPY6 trillion (USD67 billion) to JPY36 trillion (USD400 billion), (b) expand the range of business sectors eligible for this program, and (c) extend the program by one year until the end of March 2011.

¶20. (U) The Government will also raise the ceiling on the SME low-interest "safety net lending program" administered by government-backed financial institutions, such as the Japan Finance Corporation (JFC), by JPY4 trillion (USD44 billion) to nearly JPY20 trillion (USD222 billion). It will also extend the program by one year until the end of March 2011.

¶21. (U) For mid-sized and large companies, the low-interest "crisis response loan programs" administered by the government-backed Development Bank of Japan (DPJ) and Shoko Chukin Bank will be extended one year to the end of March 2011.

¶22. (U) For companies that plan to make long-term plant and equipment investments, interest rates of loans under the "crisis response loan programs" will be reduced by 0.5 percentage points in the two-year period.

¶23. (U) To enhance housing demand, the discount rate on interest of the government-backed Japan Housing Finance Agency's popular 35-year mortgage loans will be expanded from the present 30 basis points, to 100 basis points for the first ten years. As a result, the interest rate will be reduced from 2.6 percent to 1.6 percent. This rate will be available until the end of December 2010, but only for

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earthquake-resistant, barrier-free homes for the elderly, and energy-efficient homes.

#### Easing Anxiety in People's Lives

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¶24. (U) The program to suspend increases in premium payments for public medical insurance for low-income elderly people aged 75 and older will be extended through FY10. Also, the upper limit on co-payments by low-income elderly people as outpatients will be halved next year from JPY8,000 (USD89) to JPY4,000 (USD44) per month.

¶25. (U) A domestic production system of H1N1 vaccine sufficient to meet the needs of all Japanese residents will be established within six months.

#### Supporting Localities

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¶26. (U) Local governments will receive approximately JPY3 trillion (USD33 billion) under the revenue sharing program, as explained above. Local governments can use funds from the revenue sharing program at their own discretion.

¶27. (U) Local governments will receive JPY0.5 (USD5.6 billion) in grants for public works projects, such as repairing aging bridges, and placing power lines underground.

#### Enhancing People's Potential

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¶28. (U) The unification of (a) kindergartens administered by the education ministry and (b) nursery schools administered by the welfare ministry will be decided by the end of June ¶2010. Necessary legislation will be submitted to the ordinary Diet session to be convened in January 2011. The objective is to reduce the number of children waiting to get into such facilities and encourage women to enter the work force.

¶29. (U) The government will consider relaxing regulations on the ratio of green space in building large factories by classifying solar panels as "green space".  
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